

ATTACHMENT

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**CALIFORNIA BOARD OF ACCOUNTANCY**

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WEB ADDRESS: <http://www.dca.ca.gov/cba>**Attachment A****COMMITTEE ON PROFESSIONAL CONDUCT  
MINUTES OF THE MEETING****FINAL**

November 17, 2005  
Delta King  
1000 Front Street  
Sacramento, CA 95815

**CALL TO ORDER**

The meeting of the Committee on Professional Conduct (CPC) was called to order at 10:05 a.m. by Ronald Blanc, Chair. Mr. Blanc indicated that to ensure compliance with the Bagley-Keene Open Meeting Act, when a quorum of the Board is present at this meeting (eight members of the Board), Board members who are not serving on the committee must attend as observers only. Ms. Sigmann introduced George Ritter, the Board's new legal counsel from the Department of Consumer Affairs.

**Present:**

Ronald Blanc, Chair  
Richard Charney  
Gail Hillebrand  
Thomas Iino  
Renata Sos  
David Swartz

**Staff and Legal Counsel**

Mary Crocker, Assistant Executive Officer  
Michael Granen, Deputy Attorney General  
Patti Franz, Licensing Manager  
Greg Newington, Chief, Enforcement Program  
Dan Rich, Manager, Administrative Services  
George Ritter, Legal Counsel  
Theresa Siepert, Executive Analyst  
Carol Sigmann, Executive Officer  
Aronna Wong, Legislation/Regulations Coordinator

**Other Participants**

Maureen Blasko, Ernst and Young LLP  
Michael Duffey, Ernst and Young LLP  
Julie D'Angelo Fellmeth, Center for Public Interest Law

Mr. Robinson expressed support for establishing requirements that are consistent with NASBA's requirements.

### III. Consideration of CalCPA's Request for Amendments to the Board's Regulations Related to Audit Documentation Requirements.

Mr. Blanc indicated that the Board had received a letter from CalCPA dated August 17, 2005, requesting conformity between the Board's regulations and the Public Company Accounting Oversight Board's (PCAOB's) audit documentation requirements (see Attachment 2). He asked Mr. Schultz to provide information on the CalCPA proposal.

Mr. Schultz began his presentation with a historic overview. He indicated that, after the Enron crisis, the Board organized a task force that identified critical issues related to the regulation of the public accounting profession. Audit documentation was one such issue. Mr. Schultz indicated that the task force and the Board did extensive work in this area, and that one outcome was a comprehensive set of audit documentation requirements.

Mr. Schultz noted that when the PCAOB was created, one of its first projects was the development of audit documentation requirements. In developing its standard, the PCAOB received input from a wide range of stakeholders and gave extensive consideration to California's requirements. Mr. Schultz explained that now that the PCAOB's standard is in place, CalCPA is recommending that the Board consider conforming its regulations with that standard. One reason for this recommendation is that CalCPA believes cooperation for enforcement purposes would be enhanced because the Board and the PCAOB would be holding licensees to the same requirements. CalCPA also believes the compliance by firms would be enhanced since firms would not need to give special consideration to determining what rules apply.

Mr. Schultz noted that CalCPA is not suggesting that the Board adopt the entire PCAOB standard, which is much more detailed than would be appropriate for a Board regulation; nor are any statutory changes being proposed. He then explained that the proposed changes to the regulations were in three areas. The first proposed change related to the start of the seven-year document retention period. The Board's requirement starts the document retention period on the report date, which is printed on the audit report and indicates the date when the fieldwork was completed. Following that date, the financial statements are pulled together and proofread and the report is issued – generally less than a month later. The PCAOB starts the seven-year retention period on the date the report is issued which is referred as the report issuance date or the report release date. Both the PCAOB and the Board require that the two dates be documented.

Mr. Schultz added that the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) has an exposure draft which addresses audit documentation for audits of nonpublic companies. It changes the definition of the report date to the date when the field work is completed and the auditor is satisfied with the

adequacy of the financial statements. He noted that this brings the report date and the report release date very close together since by the time the auditor is satisfied with the financial statements, he or she is usually ready to release the report. He noted that this change may make the distinction moot.

Mr. Schultz reported that the second difference is that California allows a documentation completion period of 60 days during which certain things can be done to finalize the audit documentation. The PCAOB allows 45 days. He added that the ASB exposure draft specifies 60 days.

Mr. Schultz indicated that the third difference relates to the deletion of documents. He noted that both California and the PCAOB require that the auditor retain documentation related to significant matters including documentation that is contrary to the final conclusion. Also, both allow other documentation to be discarded. He pointed out that documents that can be discarded are discussed in paragraph A54 of the PCAOB's standard (see Attachment 2).

He then explained that the difference between the Board's requirement and the PCAOB standard is that the PCAOB standard permits deletion of extraneous documents during the documentation completion period, without the need to document these deletions. The Board requires that, if something is deleted during the documentation completion period, the deletion must be documented. Mr. Schultz indicated that it was his understanding, based on discussions by the CPC and the Board at the time the Board's requirement was under consideration, that to comply with the Board's regulation and appropriately document the extent of the deletion it would be necessary to keep the document being deleted as a reference. He suggested that this is a burdensome requirement and could potentially affect audit quality because to comply with this requirement the auditor must focus on deleting extraneous documents before the report is released rather than focusing on tasks more germane to the quality of the audit report. He indicated that this is the most significant part of the CalCPA proposal and that they urge the Board to modify its regulations to allow insignificant, extraneous, duplicative materials to be deleted during the documentation completion period.

Mr. Schultz then commented on the letter from Ms. D'Angelo Fellmeth of the Center for Public Interest Law (CPIL) that had been provided to the CPC and the Board (Attachment 3). He noted that CPIL argues that the regulations are too new to change. In response he stated that he believed this was a unique situation in that there is a standard developed after significant public comment by an independent, public-sector standard-setting body with very competent, professional staff. He believed it makes sense to consider conforming in this instance, rather than waiting to see how the lack of conformity plays out over a period of time. He added that CPIL's second argument was that the PCAOB's standard was not intended to occupy the field. Mr. Schultz indicated that CalCPA agrees with this point. He noted that CPIL's third argument is that CalCPA's proposal does not use the same terminology that the PCAOB uses. The PCAOB uses the term "report release date" and CalCPA, in conformance with other language in the Board's regulations, uses the term "date of issuance of the report." He

indicated that CalCPA's language was chosen to minimize the number of changes to the Board's regulations, but that CalCPA had no objection to using either term. He added that if the Board wanted to include a definition of "report release date," the PCAOB definition would need to be modified to apply to audits of entities other than public companies. Mr. Schultz added that a fourth point was that CPIL objected to the deletion of the definition of "changes in audit documentation." He explained that the reason for this was that the definition is not necessary because the PCAOB language focuses instead on what the auditor can and cannot do. Mr. Schultz commented on the quote at the end of the CPIL letter which is from the PCAOB's June 2004 document. He noted that the quote is from paragraph A56 of the PCAOB standard (see Attachment 2) which addresses the very unusual circumstance in which audit evidence is obtained and documented after the report release date. He added that this is not relevant to the normal circumstances of most audits.

Ms. D'Angelo Fellmeth then provided comments. She began by reminding participants that prior to 2002 there were no statutes or regulations, on either the state or the federal level, mandating the retention of audit documentation. The Enron and WorldCom crises changed all that. The federal government enacted the Sarbanes-Oxley Act (SOX) and California enacted AB 2873 (Frommer). She noted that both of these bills encouraged the creation of strong audit documentation standards. After AB 2873 was enacted, all of the stakeholders spent many months painfully crafting implementing regulations. The regulations were adopted by the Board on May 16, 2003, with the consensus of all stakeholders, and became effective on January 23, 2004. She indicated that CPIL believes that it is too soon to consider revisions, especially since no problems have resulted from the current regulations.

She then indicated that CPIL also objects to the content of the CalCPA proposal. She noted that the CalCPA proposal uses the term "date of issuance of the report" which is not defined by the PCAOB. She added that Mr. Schultz had previously indicated that CalCPA would be willing to use the PCAOB term, and CPIL has no problem with this change as long as it is used consistently throughout the regulations. She then commented that CPIL is much more concerned about the proposed revisions to Section 68.4 which would delete the definition of the term "changes in audit documentation." She noted that she believed the proposal creates a huge loophole that allows editing, removal, or substitution after the report release date without any recording of who authorized it and why. She indicated that she believed this was contrary to the intent of the enabling legislation and contrary to the Board's intent when the regulation was adopted. She urged the Board to reject the proposed revisions.

Mr. Robinson then commented that his clients, the Big Four accounting firms, are interested in conformity. He agreed with Ms. Fellmeth that the regulations were painfully crafted and were developed before the PCAOB proposed its standard. He then noted that the national standard the PCAOB developed is in many ways consistent with the Board's requirements, but it is at variance in some ways as well. He noted that his clients use the same standards for audits of other entities that they use for public company audits and would prefer to have one national standard with which to comply.

During the discussion, Ms. Sos stated that she was unclear why it was concluded that the Board's regulations require the retention of deleted documents. Mr. Schultz responded that California requires that the record of the deletion be sufficient so that a knowledgeable reviewer with no previous connection with the audit can understand the nature, timing, reason for, and the extent of the change. He indicated that he remembered the discussion related to recording "the extent of the change" for a deleted document and that the conclusion was that the way to document "the extent of the change" was by retaining what was being deleted. Mr. Schultz indicated that he believed the PCAOB's approach was better.

He further indicated that any change to the Board's regulation that would permit the deletion of documents related to insignificant matters during the document completion period would resolve much of the problem. He noted that the documents in question are all documents that could be deleted before the report release date, under California's regulation. He observed that it would be possible to wait and not release the report until the documentation process was complete, but that would not be desirable because timeliness is a significant aspect of financial information.

Mr. Blanc inquired how deletions after the document completion date were addressed in CalCPA's proposal. Mr. Schultz responded that deletions would be barred after the document completion date. After the document completion date, items may be added to the file, but this must be documented. Also, if anything is edited, there must be a record of what was there prior to editing.

Ms. Hillebrand indicated that she was concerned about permitting deletions based on a reliance on the standard which indicates what material must be retained. She noted that there is an element of judgment involved in determining what should be deleted, and it is useful to have a record of who is making that determination.

Mr. Iino inquired about requirements in other states. Mr. Schultz indicated he believed New York has a comprehensive requirement, while Texas requires retention for a specified number of years. He noted that NASBA's rule specific to audit documentation is similar to the ASB. Mr. Duffey added that some other states have a requirement that documents be kept for seven years. He observed that, after the PCAOB developed its standard, other states stopped their activities in this area.

Mr. Swartz noted that there are a lot of papers that are accumulated in the file, and that giving people 45 days to delete documents that could have been deleted earlier does not strike him as a significant concern. It was then moved by Mr. Swartz and seconded by Dr. Charney to accept CalCPA's proposal and also to clarify the definition of report release date.

Mr. Blanc indicated he believed there were difficulties involved in adopting CalCPA's proposal without any modifications. Ms. Hillebrand agreed, and expressed concern regarding permitting the deletion of items with no record of who was responsible for the

deletion. She also observed that CalCPA's proposal employs a model developed for audits of public companies and it needs to be evaluated to determine if it is suitable for audits of other entities as well. She also noted that the issue of whether the Board's regulation requires the retention of deleted items needs further exploration. She suggested that perhaps insignificant or duplicative items could be deleted if there was a record of who decided to delete them and the date of the deletion.

Mr. Swartz asked why it would make a difference if a document was deleted before the report release date instead of ten days after that date. Ms. Hillebrand indicated that the release date is the date when the document has an impact on third parties. If something is deleted later, the documentation may not support the information in the report. She also indicated she was concerned because there is judgment involved in determining what is insignificant and can be deleted, and she believed it was important to have a paper trail showing who makes that determination.

Ms. Sos indicated she believed the CPC and the Board needed to be cautious about making changes to the current regulations. She suggested that a simple modification to the existing regulation could address the concern that compliance with the Board's regulation required the retention of deleted documents. She further indicated she believed the Board should give consideration to the ASB exposure draft before modifying its requirements.

After discussion, the CPC voted on Mr. Swartz' motion. The motion did not carry (2 "ayes," 4 "noes"). **It was then moved by Ms. Sos and seconded by Mr. Swartz to continue the discussion at the next meeting and to include in that discussion consideration of the ASB audit standard especially with regard to the number of days permitted for the assembly of documents and the cut-off date, consideration of a possible revision to subsection (b) of Section 68.4 so that the last sentence begins with language such as "The documentation regarding the change shall contain..." to clarify the requirement related to the deletion of documents, and consideration of the addition of a new subsection to Section 68.4 to not permit the deletion or discarding of documents after a specified date. Mr. Robinson asked that, when this matter is considered by the Board again, there be a side-by-side comparison so that the Board can be informed regarding which changes will result in conformity with the PCAOB standard. Ms. Sos agreed to accept this as part of the motion. The motion was unanimously carried.**

#### IV. Proposed Revision to Business and Professions Code Section 5134 Related to Fees and the Reserve.

Mr. Rich reported that, at the September 2005 Board meeting, staff presented a fee analysis with recommendations related to the reserve amount in the Accountancy Fund. At that meeting, the Board decided to pursue four statutory changes and asked that staff develop language to implement that decision. He noted that two of the changes were related to the elimination of the requirement that fees for the examination and for licensure approximately equal the administrative cost of the programs. The third

Attachment 2

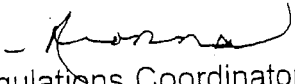
Memorandum

CPC Agenda Item III  
November 17, 2005

Board Agenda Item IX.C.4  
November 17-18, 2005

To : CPC Members  
Board Members

Date: November 1, 2005  
Telephone : (916) 561-1788  
Facsimile : (916) 263-3674  
E-mail: awong@cba.ca.gov

From : Aronna Wong -   
Legislation/Regulations Coordinator

Subject : CalCPA's Request for Amendments to the Board's Regulations Related to  
Audit Documentation

Attached for CPC and Board consideration is a letter from the California Society of Certified Public Accountants (CalCPA) proposing revisions to Sections 68.3 and 68.4 of the Board's regulations (Attachment 1). The objective of this proposal is to make Sections 68.3 and 68.4 more consistent with Auditing Standard No. 3 – Audit Documentation, issued by the Public Company Accounting Oversight Board (PCAOB), June 9, 2004.

CalCPA's proposal would make the following changes:

- **Revisions to Section 68.3 related to the start date for the retention of audit documentation:**  
The Board's Current Requirement: Current Section 68.3 provides for the seven-year audit documentation retention period to begin on the report date, which is the date the fieldwork for the audit is completed.  
CalCPA's Proposed Revision: The proposed revision would begin the retention period on the date of issuance of the report, which is the date the report is signed and released.  
Comments: Enforcement Division staff have indicated that the report issuance date is generally less than a month after the report date. Section 68.2 of the Board's Regulations requires that both dates be included in the audit documentation. The PCAOB standard refers to the "date of issuance of the report" as the "report release date."
- **Revisions to Section 68.4 related to the length of the grace period.**  
The Board's Current Requirement: Current Section 68.4 provides for a 60-day grace period.  
CalCPA's Proposed Revision: CalCPA's proposal provides for a 45-day grace period.

- **Revisions to Section 68.4 related changes to documentation during the grace period.**

The Board's Current Requirement: Current Section 68.4 provides that, during the grace period, documents may be added to the file without the need to document the change.

CalCPA's Proposed Revision: CalCPA's proposal provides that, during the grace period, documents could be deleted from as well as added to the file, without the need to document the change.

Comments: It should be noted that subsection (d) of Section 68.3 requires the retention of audit documentation regarding any significant matter related to the audit. If CalCPA's proposal is approved, clarifying language could be added to indicate that the authorization to delete documents during the grace period does not apply to audit documentation that must be retained pursuant to Section 68.3(d).

- **Revisions to Section 68.4 related to changes to documentation after the grace period.**

The Board's Current Requirement: Current Section 68.4 provides for the deletion or addition of documents after the grace period, provided the change is thoroughly documented.

CalCPA's Proposed Revision: The proposed revision would not permit documents to be deleted after the grace period, although documents could be added to the file with the appropriate documentation.

To assist in your review of the proposal, in addition to the letter from CalCPA, the following documents are provided as background information: current Sections 68.2 – 68.5 of the Board's Regulations related to audit documentation (Attachment 2), Business and Professions Code Sections 5097 and 5098 related to audit documentation (Attachment 3), and the PCAOB's Auditing Standard No. 3 – Audit Documentation (Attachment 4).

Representatives of CalCPA will be at the meeting to provide any additional information or respond to questions. If the Board approves the proposed revision in concept at this meeting, revised language consistent with California's requirements for regulations will be provided for Board approval in January 2006, and a regulation hearing will be scheduled for the May 2006 Board meeting.

Attachments



August 17, 2005

Renata Sos, President  
California Board of Accountancy  
c/o Evergreen Street, Suite 250  
Sacramento, CA 95815

RE: **Conformity Between California and PCAOB Audit Documentation Retention Requirements**

Dear Ms. Sos:

On behalf of the California Society of CPAs (CalCPA), we are writing to request that the California Board of Accountancy (CBA) consider certain amendments to Section 68 of its Regulations regarding audit documentation to achieve appropriate conformity with the national standards for audit documentation adopted by the Public Company Accounting Oversight Board (PCAOB)

**Background**

In the wake of the collapse of Enron in the fall of 2001, the CBA and the California legislature moved swiftly to identify and respond to issues regarding auditing standards and practices. The adequacy of audit documentation and the period of its retention was one of the issues that received significant attention. The California legislature enacted Sections 5097 and 5098 of the Business and Professions Code which were signed into law on August 23, 2002. The CBA adopted Section 68 of its regulations to implement that legislation.

The Congress and federal regulators also focused attention on audit documentation:

- The Sarbanes-Oxley Act of 2002 directed Public Company Accounting Oversight Board to establish standards for audit documentation.
- The PCAOB adopted *Auditing Standard No. 3 – Audit Documentation* dated June 9, 2004.

The importance which the PCAOB placed on the development of appropriate audit documentation standards is indicated in paragraph A2 of *Auditing Standard No. 3*:

Section 103(a)(2)(A)(i) of the Sarbanes-Oxley Act of 2002 (the "Act") directs the Board to establish auditing standards that require registered public accounting firms to prepare and maintain, for at least seven years, audit documentation "in sufficient detail to support the conclusions reached" in the auditor's report. Accordingly, the Board has made audit documentation a priority.

As the Congressionally mandated standard setter for the audits of public companies, the PCAOB undertook an open, thorough and well documented process of developing its standard for audit documentation<sup>1</sup>. It is clear from the text of some of the provisions of *Auditing Standard No. 3* and from the participation of CBA member Charles Drott in the public roundtable discussion of audit documentation convened by the PCAOB on September 29, 2003 that the PCAOB gave serious consideration to laws and regulations that California had already developed regarding audit documentation.

<sup>1</sup> Please see Attachment 3 for the PCAOB's description of its development of *Auditing Standard No. 3*

## Analysis

The provisions of California Business and Professions Code Sections 5097 and 5098 are essentially the same as comparable requirements in PCAOB *Auditing Standard No. 3*. The significant differences are:

- California law and the PCAOB standard agree that audit documentation should be sufficient to be understandable to an experienced reviewer with no previous connection to the audit engagement. The PCAOB goes further in requiring that the experienced reviewer "has studied the company's industry as well as the accounting and auditing issues relevant to the industry."
- The PCAOB did not adopt California's "rebuttable presumption," but the standard does make clear the auditor's obligation to document the procedures performed and notes: "Oral explanation alone does not constitute persuasive other evidence, but it may be used to clarify other written evidence."
- The PCAOB standard does not require the auditor to maintain a written document retention and destruction policy.

CBA Regulations Section 68 includes a number of requirements that are also essentially the same as comparable requirements in PCAOB *Auditing Standard No. 3*. Except as noted below, the primary differences are very specific requirements which are appropriate for the PCAOB's professional standard, but are too detailed for inclusion in CBA regulations<sup>2</sup>.

The significant differences between CBA Regulations Section 68 and PCAOB *Auditing Standard No. 3* are:

### Section 68.3(a) Retention Period for Audit Documentation

The California retention period is measured from the report date, while PCAOB *Auditing Standard No. 3*, paragraph 14 measures the retention period from the date of issuance of the audit report.

### Section 68.4 Changes in Audit Documentation After Issuance of the Report

The CBA regulations do not allow any documents to be deleted from the audit documentation after the issuance of the audit report. PCAOB *Auditing Standard No. 3* does not prohibit discarding unnecessary audit documentation after the issuance of the audit report. It does prohibit such deletions after the document completion date which is 45 days after the report issuance date. Both the CBA regulations and PCAOB *Auditing Standard No. 3* require that audit documentation regarding significant matters be retained whether or not the documentation is inconsistent with the auditor's final conclusions.

### Section 68.4(c) Audit Documentation Completion Period

CBA regulations provide a 60-day period after the date of issuance of the audit report during which "documents may be added to the file for the assemblage and documentation of work previously performed." PCAOB *Auditing Standard No. 3* requires that "a complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date."

## Recommendation

CalCPA does not intend to pursue any amendments to the California statutory provisions regarding audit documentation at this time.

While recognizing that there may be instances where California regulations appropriately differ from national requirements, CalCPA favors national conformity in all possible cases. While such conformity certainly contributes to the efficiency of work performed by our members, it is also in the public interest. Conformity with national standards substantially enhances the ability of CPAs

<sup>2</sup> e.g. "If an audit sample is selected from a population of documents, the documentation should include identifying characteristics (for example, the specific check numbers of the items included in the sample)." [From paragraph 10 of *Auditing Standard No. 3*]

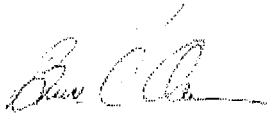
to comply with the requirements and makes cooperation in California and federal enforcement efforts more effective and efficient.

We believe that the PCAOB has developed its audit documentation standards utilizing highly experienced staff and according due process consideration to all interested parties. We therefore urge the CBA to amend Section 68 of its regulations to eliminate the three areas of difference with the PCAOB standard noted above.

Our recommendations for the specific amendments to accomplish conformity are presented in Attachment 1 and further explained in Attachment 2.

We thank you and the members of the CBA for your consideration of this request and look forward to working with you on implementation.

Best regards,

A handwritten signature in dark ink, appearing to read "Bruce C. Allen", is written over a horizontal line.

BRUCE C. ALLEN, Director  
Government Relations

cc: Carol Sigmann, Executive Officer  
Members of the California Board of Accountancy  
Loretta Doon, COO, CalCPA  
CalCPA Government Relations Committee members

**Attachment 1**  
**Recommended Amendments to Board Regulations Sections 68.3 and 68.4**

**Section 68.3. Retention Period for Audit Documentation.**

(a) The retention period mandated by Business and Professions Code Section 5097 shall be measured from the report date of **issuance of the report**.

(b) If audit documentation is required to be kept for longer than seven years because of a pending Board investigation or disciplinary action, audit documentation shall not be destroyed until the licensee has been notified in writing by the Board of the closure of a Board investigation or disciplinary proceeding.

(c) Any documents required to be maintained by Business and Professions Code Section 5097 or these regulations shall be maintained in accessible form.

(d) Audit documentation shall be retained whether or not the documentation supports the auditor's final conclusions. All audit documentation regarding any significant matter related to the audit shall be retained whether or not the documentation contains information or data inconsistent with the auditor's final conclusions. Significance of a matter shall be determined based on an objective analysis of the facts and circumstances. Audit documentation to be retained shall also include all documentation of consultations on, or resolutions of, any differences of opinion regarding the exercise of professional judgment.

**Section 68.4. Changes in Audit Documentation After Issuance of the Report.**

(a) ~~Changes in audit documentation include any addition, removal, deletion, substitution, or editing of audit documentation, including, but not limited to, physical or electronic additions to any audit documentation file or preexisting audit documentation, occurring after the date of issuance of the audit report which is supported in whole or in part by the audit documentation.~~ **Prior to the date of issuance of the report, the auditor must have completed all necessary auditing procedures and obtained sufficient evidence to support the representations in the auditor's report. A complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date (documentation completion date). If a report is not issued in connection with an engagement, then the documentation completion date should not be more than 45 days from the date that fieldwork was substantially completed. If the auditor was unable to complete the engagement, then the documentation completion date should not be more than 45 days from the date the engagement ceased.**

(b) **Circumstances may require additions to audit documentation after the date of issuance of the report. Audit documentation must not be deleted or discarded after the documentation completion date, however, information may be added. Except as provided in subsection (c), in addition to any other documentation required by professional standards, any changes in audit documentation added must indicate the date the information was added, the name of the person who prepared the additional documentation, shall provide the identity of the person(s) making the change, and the identity of any person(s) approving the change addition, the date of the change, and the reason for adding it the change if the reason is other than the assembling of pre-existing documents. The documentation which is changed added shall contain sufficient detail to enable a reviewer with relevant knowledge and experience, having no previous connection with the audit engagement, to understand the nature, timing, reason for, and extent of the change addition.**

(c) ~~During a 60-day period after the date of issuance of the audit report, documents may be added to the file for the assemblage and documentation of work previously performed. Nothing in this subsection authorizes the deferral of audit procedures required to be performed prior to the date of issuance of the report.~~

**Attachment 2**  
**Discussion of Recommended Amendments to Board Regulations 68.3 and 68.4**

**Section 68.3**

The California regulations currently measure the seven-year audit documentation retention period from the "report date." This is the date on which the audit fieldwork has been completed and is indicated in the auditor's opinion.

PCAOB *Auditing Standard No. 3* measures the seven-year retention period from the "report release date." This is the date on which the auditor delivers his or her signed audit opinion to the client or otherwise gives the client permission to use the auditor's report. The report release date will always be later (thus, the retention period will be longer) than the report date.

The term "date of issuance of the audit report" is equivalent to the report release date and is used in the recommended amendment to maintain consistency with other sections of the California regulations that use that term to refer to the report release date.

See Attachment 2 continued (attached).

## Attachment 2 (continued)

Section 68.4	Existing Sec. 68.4	PCAOB Auditing Standard No. 3	Proposed Sec 68.4	Comments
	<p>(a) Changes in audit documentation include any addition, removal, deletion, substitution, or editing of audit documentation, including, but not limited to, physical or electronic additions to any audit documentation file or preexisting audit documentation, occurring after the date of issuance of the audit report which is supported in whole or in part by the audit documentation.</p>			<p>The structure of the PCAOB standard does not require a definition of "changes" to audit documentation.</p>
	<p>(c) During a 60-day period after the date of issuance of the audit report, documents may be added to the file for the assemblage and documentation of work previously performed. Nothing in this subsection authorizes the deferral of audit procedures required to be performed prior to the date of issuance of the report.</p>	<p>15. Prior to the report release date, the auditor must have completed all necessary auditing procedures and obtained sufficient evidence to support the representations in the auditor's report. A complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date (documentation completion date). If a report is not issued in connection with an engagement, then the documentation completion date should not be more than 45 days from the date that fieldwork was substantially completed. If the auditor was unable to complete the engagement, then</p>	<p>(a) Prior to the report release date, the auditor must have completed all necessary auditing procedures and obtained sufficient evidence to support the representations in the auditor's report. A complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the date of issuance of the report (documentation completion date). If a report is not issued in connection with an engagement, then the documentation completion date should not be more than 45 days from the date that fieldwork was substantially completed. If the auditor was unable to complete the engagement, then</p>	<p>There are 2 significant changes in the proposed Sec. 68.4(a) versus the existing Sec. 68.4(c) to conform to the PCAOB standard:</p> <ul style="list-style-type: none"> <li>• The period during which documentation can be completed is reduced from 60 days to 45 days.</li> <li>• There is no prohibition on deleting unnecessary documentation during the 45 day completion period. (Note that the requirement of existing Sec. 68.3(d) to retain documentation that is inconsistent with the final conclusion for significant matters is not changed by these proposed amendments.)</li> </ul>

	the documentation completion date should not be more than 45 days from the date the engagement ceased.	the documentation completion date should not be more than 45 days from the date the engagement ceased.	<p>The requirement to complete all necessary audit procedures before the issuance of the report is retained.</p> <p>Requirements for determination of the document completion date for circumstances in which a report is not issued or an audit is not completed are provided.</p> <p>The following 3 requirements that are in the existing California regulations but not in the PCAOB standard have been retained in the proposed amendments:</p> <ul style="list-style-type: none"> <li>• "In addition to any other documentation required by professional standards"</li> <li>• Identity of any persons approving the addition of material after the document completion date</li> <li>• Sufficient detail to inform an experienced reviewer with no previous connection with the audit engagement</li> </ul>
<p>(b) Except as provided in subsection (c), in addition to any other documentation required by professional standards, any changes in audit documentation shall provide the identity of the person(s) making the change, and identity of any person(s) approving the change, the date of the change, and the reason for the change if the reason is other than the assembling of pre-existing documents. The documentation which is changed shall contain sufficient detail to enable a reviewer with relevant knowledge and experience, having no previous connection with the audit engagement, to understand the nature, timing, reason for, and extent of the change.</p>	<p>16. Circumstances may require additions to audit documentation after the report release date. Audit documentation must not be deleted or discarded after the documentation completion date, however, information may be added. Any documentation added must indicate the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding it.</p>	<p>(b) Circumstances may require additions to audit documentation after the date of issuance of the report. Audit documentation must not be deleted or discarded after the document completion date, however information may be added. In addition to any other documentation required by professional standards, any documentation added must indicate the date the information was added, the name of the person who prepared the additional documentation, the identity of any person(s) approving the addition, and the reason for adding it. The documentation which is added shall contain sufficient detail to enable a reviewer with relevant knowledge and experience, having no previous connection with the audit engagement, to understand the nature, timing, reason for, and extent of the addition.</p>	